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Abstract

Using a unique data of 1640 firms with foreign ownership registered in Russia this paper examines how foreign ownership strategies in Russia are influenced by the corruption distance between the home country and Russia. It also examines how anti-corruption regulation in the home country affects the modal choice. Based on transaction cost and resource-based theories, the modal choice is viewed as a trade-off between the benefits and costs of having a local partner. In the case of Russia, the benefits were found to exceed the costs, as corruption distance is positively related to shared ownership. Even the home country's ratification of the OECD Anti-Bribery Convention does not shift the ownership structure towards full ownership.

Keywords: Corruption distance, entry strategies, anti-corruption regulation, emerging economies, Russia, transaction cost theory

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1. Introduction

The subject of corruption has been increasingly discussed by international organisations, national governments and academic scholars alike (Judge et al., 2011). Corruption is a multifaceted phenomenon and there are many types of corrupt practices. Bribery of public officials is the most prevalent form of corrupt act that companies commit (Luo, 2004) and, accordingly, economists and international business scholars most often define corruption as misuse and abuse of public power for private benefit (Judge et al., 2011).

The globalisation of the world economy has added new urgency to the corruption problem (Glynn et al., 1996). In this context, one of the unresolved issues in the debate is the relationship between corruption and foreign direct investment (FDI) (Meschi, 2009). Some view corruption as "sand in the wheels of commerce" (Cuervo-Cazurra, 2008), which produces bottlenecks, heightens uncertainty, and raises costs for foreign investors (Habib & Zurawicki, 2002), thereby deterring FDI. On the other hand, some foreign firms view corruption as "grease in the wheels of commerce" (Cuervo-Cazurra, 2008), which provides them with opportunities to influence government decisions to their own benefit (Meschi, 2009).

This paper studies the other important aspect of the relationship between corruption and globalisation – the impact of corruption distance between home and host countries on international ownership strategies. The corruption distance as determinant of entry mode choice, have only recently started to receive empirical research attention (Demirbag et al., 2007; Driffield et al., 2010; Duanmu, 2011). The present study contributes to this recent literature by examining the impact of corruption distance on foreign firms' ownership strategies in Russia.

Russia is a country in which corruption has been recognised as a central economic issue in recent years (Levin & Satarov, 2000; Judge et al., 2011). In 2010, Russia was ranked 154th in the world in terms of corruption, equal to ten other countries, including Cambodia, Kenya and Laos (Transparency International, 2010).

While corruption in Russia takes many forms, public sector corruption is particularly relevant for foreign firms. Russia has been used as an example of a country where corruption is both pervasive and arbitrary (Rodriguez et al., 2005). In other words, it is present everywhere but is also disorganised, with bribes being collected by various officials at different echelons and levels of government agencies (Schleifer & Vishny, 1993 and 1998). A main source of corruption in Russia is the burdensome bureaucracy related to business operations. In addition, ambiguous regulation has created opportunities for inspecting authorities to continually find something for which they can assess fines. Accordingly, it is worth studying how those companies that do not

regard Russia's high corruption level as a serious enough obstacle to investing in the country adjust to the corrupt environment. The choice of entry mode can be viewed as one of the most important strategic tools of such an adjustment.

Furthermore, this paper introduces a new dimension to the analysis – the degree to which corruption regulation in the investor's home country influences foreign ownership strategies. There is some empirical evidence that home country laws against bribery abroad would reduce foreign investment in corrupt countries (Cuervo-Cazurra, 2008a and 2006). However, the impact of such laws on the entry strategies of those firms that do invest remains almost unexplored. Existing theoretical research (Rodriguez et al., 2005) has suggested that when home country regulations prohibit the offering of bribes abroad, foreign investors would be more likely to use low-equity modes or arm's length intermediaries. As far as has been ascertained, this proposition has only been tested empirically in the case of U.S. investors, with only tentative evidence that they would be more averse to joint ventures in corrupt host countries than in other countries (Javorcik & Wei, 2009; see also Hines, 1995). A similar proposition was tested in the present study for the case of foreign investors in Russia.

The hypotheses of this study are tested against a sample of 1640 firms with foreign ownership registered in the Russian Federation. The data includes fully-owned foreign affiliates as well as joint ventures with local partners between 1990 and 2008.

The paper starts with a review of the existing literature on corruption and its relationship to foreign ownership strategies and then develops hypotheses for the study. Section 3 describes the data and estimation methodology and Section 4 reports the empirical results. Section 5 discusses the results and draws conclusions and implications of the study for practicing managers and policy-makers.

2. Literature review and hypotheses

Most existing literature on foreign entry and ownership strategies has focused on firm-level determinants, including the firm's need to minimize transaction costs, and its resources and capabilities. More recently, the importance of the characteristics of the firm's operational context has increasingly been recognized (Meyer et al., 2009). In the context of emerging economies such as Russia, institutions as providing "rules of the game" for economic actors (North, 1990) are of particular importance. These rules are both formal, which include the written and codified rules such as laws on foreign ownership, and informal rules representing norms and values. Consequently, the institutional perspective on business strategy (Peng, 2002; Peng et al., 2008)

has gained a firm foothold in the strategy research, including foreign ownership strategies, on emerging economies (Hoskisson et al., 2000; Meyer and Peng, 2005).

Corruption as a phenomenon is a central institutional feature, which can be conceptualized in different ways. The government policy towards corruption, including anti-corruption laws and other measures to control corruption, represent the formal institutions (Dikova et al., 2010; Slangen & Beugelsdijk, 2010). In contrast, the propensity of public officials to take bribes, and the ways of enforcing anti-corruption regulation represent informal institutions (El Said & McDonald, 2002), as do the prevailing norms in the business community regarding bribery (Meyer et al., 2009). In this paper, we take both formal and informal aspects of corruption into account as determinants of foreign ownership strategy. At the same time, we take the firm-level strategic considerations into account by searching for explanations on the relationship between corruption and foreign ownership strategies from two firm-centred perspectives: the transaction cost approach and the resource-based view.

2.1. Corruption distance and entry mode choice

The literature on the role of institutions on foreign entry and ownership strategy has started focusing not only on the quality of institutions but on institutional distance; that is, the difference between institutions in the home country and those in the host country (Eden & Miller, 2004; Estrin et al., 2009). When interpreted through the transaction cost perspective, greater institutional distance, particularly the distance in culture and other informal institutions, increases the two opposing forces that foreign investors face: the need for and benefits of a local partner and the costs of cooperating with them (Slangen & Hennart, 2008; Estrin et al., 2009).

Corruption distance as a dimension of institutional distance was first introduced by Habib and Zurawicki (2002), who found that the level of corruption and corruption distance both have a negative correlation to FDI. In the same vein, Eden and Miller (2004) theorised that it is not the absolute level of corruption that matters but the difference of corruption between the investor's home country and the host country. The concept of corruption distance was first applied empirically to the entry mode research by Demirbag et al. (2007). Their study on Turkey found partial support for their hypothesis that a greater corruption distance would increase the likelihood of a majority joint venture over a wholly-owned subsidiary. More recently, Driffield et al. (2010), using data from Central and Eastern European countries, have shown that corruption distance is negatively correlated to the level of foreign ownership. On the contrary, Duanmu (2011) in the study for China found that MNEs from countries which are less corrupt than China

prefer wholly owned subsidiary (WOS) over joint ventures (JV); the higher corruption distance it is between these countries and China, the higher probability their MNEs choose WOS over JV.

Thus, some of the existing evidence on corruption distance and foreign ownership strategies, which has been collected in emerging economies, supports the explanation based on transaction-cost theory, which states that when a foreign firm selects its entry mode, it chooses shared ownership in order to cope with the external uncertainty caused by corruption. In an uncertain environment, the foreign company considers the joint venture partner to be a source of reliable information, protection and external legitimacy (Rodriguez et al., 2005).

The benefits of having a local partner in emerging economies include knowledge (which is often tacit) about informal institutions, including corrupt practices (Boyacigiller et al, 2004; Estrin et al., 2009). Corrupt practices represent a component of local business and administrative customs, and the inability to handle corruption is a competitive disadvantage for foreign investors from less corrupted countries (Habib & Zurawicki, 2002). Hence, the greater the difference in corruption between the home country and the host country, the greater the need for local knowledge and, consequently, for a local partner (Estrin et al., 2009). The corrupt environment in emerging economies increases the costs of "outsiders" entering the market and acts as an incentive to seek the assistance of "insiders" (local partners) in order to reduce these costs (El Said & McDonald, 2002).

Moreover, the recent attempts to integrate the resource-based view with an institutional approach (Meyer et al., 2009) highlight the importance of context-specific resources as a basis for competitive advantage (see also Delios and Beamish, 1999; Meyer and Peng, 2005). In emerging economies, such resources are often intangible, such as business networks and relations to governmental authorities. In Russia, a good example is obtaining permits and licences to gain ownership of certain assets like land, premises and natural resources. Bribery is common in this process, and it certainly creates a situation of market inefficiency. For foreign investors from countries that are very different from Russia in terms of corruption practices, it is often easier to have a local partner who will "negotiate" all those things, rather than trying to deal with corrupt Russian administrative bodies directly. The above discussion leads to the following hypothesis, which is based on the benefits-side of sharing ownership with a local partner:

Hypothesis 1a: Foreign companies are more likely to choose shared ownership than full ownership when the distance in corruption between the home country and Russia is greater.

However, as it has already been mentioned, there is empirical evidence for China in the recent study of Duanmu (2011) that the higher corruption distance between less corrupt home

countries and China as a host country, the higher the probability that MNEs will establish WOS over JV. This result can also be supported by theoretical literature. The entry mode choice for a joint venture is a trade-off between the benefits of a local partner helping to deal with difficult institutional systems and the risk that its opportunistic behaviour will lead to the expropriation of assets and low returns to foreign investors (Henisz, 2000). In addition, the control of such risks increases the costs of having a local partner. Although corruption increases the value of having a local partner to navigate bureaucratic issues and cope with corrupt officials, this also reduces the effective protection of the intangible assets of a multinational firm (Wu, 2006). In case of corruption, such partner expropriation hazards include the potential damage to the company's reputation and even legal consequences in the home country.

Moreover, the traditional resource-based view of strategy (e.g., Barney, 1991) highlights the importance of firm-specific resources and organizational capabilities in providing sustainable competitive advantage to firms (Zaheer, 1995). In the international business context, this implies that a multinational enterprise (MNE) wishing to successfully compete with local firms with superior knowledge of the local environment must effectively transfer its organisational capabilities (such as internal processes and practices) to the foreign affiliate (Zaheer, 1995; Kostova & Roth, 2002). This requires integration of the foreign affiliates to the MNE's global operations, which becomes more difficult when the institutional distance, including the difference in business norms and practices, increases (Kostova & Roth, 2002). Hence, it has been suggested that the transfer of practices and control over the local affiliate would be easier in wholly-owned affiliates than in joint ventures and, therefore, that firms would opt for whole ownership in countries that are institutionally distant (including distance in terms of corruption).

A supporting argument from the transaction cost perspective is that firms entering foreign markets must cope with internal uncertainty related to the costs of controlling and monitoring the behaviour of local agents (Anderson & Gatignon, 1986). Institutional distance, in terms of whether bribery and other corruptive practices are viewed as acceptable, increases this uncertainty. As a result, a foreign firm may prefer a fully-owned subsidiary over a joint venture in order to lower the costs of monitoring the foreign affiliate (Anderson & Gatignon, 1986). In the case of foreign firms entering Russia, the entrants with the highest corruption distance come from non-corrupt countries. Transparency and non-corruptness are part of the corporate values and practices of such firms, which means that they face greater pressure to control the behaviour of their foreign affiliates in terms of corruption than entrants that are closer to Russia in terms of corruption. This leads to a hypothesis that is the opposite of Hypothesis 1a by emphasising the cost-side of having shared ownership with a local partner:

Hypothesis 1b: Foreign companies are more likely to choose full ownership than shared ownership when the distance in corruption between the home country and Russia is greater.

2.2. Anti-corruption legislation and entry mode choice

In addition to corruption distance, this paper argues that the choice of ownership strategy is affected by the home country's regulations regarding corrupt practices abroad. Such anti-corruption legislation, which prohibits local businessmen from being involved in corrupt activities, both in their own country and abroad, has been adopted in many developed countries in recent years. The United States has led the fight against official corruption in international business transactions for more than 30 years. The Foreign Corrupt Practices Act ("FCPA" or "the Act") of 1977 stipulated that U.S. companies and other firms accessing U.S. capital markets are not allowed to bribe public officials in order to win business abroad (Rial, 2009). The continuing expansion of global commerce in recent years has enhanced the intensity of anti-corruption enforcement in the U.S. and around the world. The most prominent example of anti-corruption enforcement on the global level is the OECD Anti-bribery Convention (officially, *OECD Convention on Combatting Bribery of Foreign Public Officials in International Business Transactions).* This convention aims to reduce corruption in developing countries by encouraging sanctions against bribery in international business transactions carried out by companies based in the convention's member countries. As of April 1, 2009, 38 countries had ratified the convention.

There is some empirical evidence that laws against bribery in international transactions can deter investment in corrupt countries from those countries in which such laws are in force (Cuervo-Cazurra 2006; 2008a). The present study focuses on those firms that do invest in corrupt countries such as Russia and raises the question of how the OECD Convention's accession status of a home country influences the ownership mode choice decision of the foreign firm. Based on the literature reviewed above, this paper argues that the opposite effects could occur. An investor entering the Russian market needs certain permits, licences, etc., in order to conduct business activities there, and obtaining these from the various administrative bodies is almost always accompanied by bribery and other types of corruption. However, for an investor from a country that has ratified the convention, involvement in such activities is prohibited. A reasonable decision in such a case would be to establish a joint venture with a local partner that already has the required permissions/licenses or can obtain them using their own connections. This leads to the following hypothesis:

Hypothesis 2a: Foreign companies are more likely to choose shared ownership than full ownership if the OECD Anti-Bribery convention has entered into force in their country of origin.

However, there is a counter-argument. The reach of most anti-corruption laws is relatively wide, meaning that a company is responsible for the actions of any affiliated organisation acting for financial benefit in the foreign country. Hence, the legislative authorities of the foreign company's home country can consider that the involvement of a foreign company's joint venture – or even joint venture partner – in corrupt activities is a breach of the convention. In this case, a full ownership strategy would be preferable in order to protect foreign investors from being responsible for the corrupt behaviour of their local partners. In addition, foreign entrants may opt for arm's length intermediaries in the host country in order to avoid home-country penalties (Eden & Miller, 2004). There is anecdotal evidence of such "outsourcing" of corruption in emerging economies. A foreign company may pursue a full ownership strategy but contract all of its interaction with public sector officials to local consulting companies and other organisations without any ownership linkage to the company (see, e.g., Karhunen et al., 2008). This leads to Hypothesis 2b:

Hypothesis 2b: Foreign companies are more likely to choose full ownership than shared ownership if the OECD Anti-Bribery Convention has entered into force in their country of origin.

3. Data description and research method

3.1. Data

The data collection started with an initial sample of 13,000 companies that have foreign ownership and were registered in the enterprise registry of Rosstat (the Russian State Statistical Agency) between 1990 and 2008. This sample consists of foreign companies that are fully owned by one foreign entity (MNE, foreign company) and joint ventures between one foreign company/MNE and any number and any type (company, citizen, authority) of Russian partner(s). Forty-one percent of the companies in this sample had foreign owners from Cyprus (28 percent) and the British Virgin Islands (13 percent). There are also firms with foreign capital from other countries that are known as offshore zones that are popular with Russian flight

capital. Because combining different types of investors in an empirical study might skew the results, these "offshore" investments with a likely origin in Russia were excluded, as were those companies with capital of less than five million roubles (about 125,000 Euros). We also excluded companies with a foreign ownership of less than 10%, i.e., portfolio investment. The final sample comprises 1640 firms, a number that is dominated by wholly-owned foreign firms (approximately 70 percent), foreign firms in the service sector (approximately 65 percent), firms with foreign partners from developed countries (approximately 70 percent), and firms located in the city of Moscow (approximately 45 percent). The structure of the final sample does not differ greatly from the initial sample in this regard.

3.2. Operationalisation of variables

3.2.1. Dependent variable

Binary logit regression was applied to test the hypotheses. The study utilised a binary dependent variable that is equal to 1 if a firm is 100 per cent foreign-owned and 0 otherwise. The data used to construct this variable referred to the ownership structure at the time a firm was initially set up.

3.2.2. Independent variables

In order to construct the corruption distance (CORRDIST) variable, the preliminary estimations used three alternative measures of corruption: the *Corruption Component of the Index of Economic Freedom from the Heritage Foundation*, the *Control of Corruption Indicator of World Bank,* and the *Corruption Perceptions Index of Transparency International*. The final model measured corruption distance using the *Corruption Component of the Index of Economic Freedom from the Heritage Foundation* because it exhibited the highest statistical relationship with the dependent variable. The distance is computed as the absolute difference between the home country and the host country (Russia) as average for the period of 1995-2006.

The anti-corruption convention (ANTICORR) variable is a dummy variable, which equals to one if the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions has entered into force within a home country's legislation (from the year of entry and onward) and zero otherwise.

3.3. Control variables

Canabal and White III (2008) found that around 200 different explanatory variables had been used in various studies on the determinants of entry mode choice. The most common of these were MNE/international experience, cultural distance, risk, firm size, host country variables (e.g., restrictions, policies), R&D intensity, host country experience, competition/concentration, size of operation (scale), and advertising intensity. For the present study, the set of control explanatory variables was selected on the basis of a thorough analysis of previous similar empirical studies, existing theories on entry mode choice's determinants, the particularities of the Russian economy, and data availability.

First of all, we introduce an indicator of cultural distance between home and host countries. The national cultural distance between countries refers to the constraints (in the form of values, norms, beliefs) that people impose upon themselves in order to provide structure to their relations with others (North, 1990 and 2005). Cultural distance has been found to affect entry mode choice, although in a somewhat conflicting manner (see, e.g., Estrin et al., 2009). Following Estrin et al. (2009), the Kogut-Singh index (1988) was employed to measure cultural distance (CULTDIST) on the basis of the GLOBE study's dimensions,[1] which are available for 62 countries.

The Kogut-Singh index was computed as follows:

$$CD_j = \sum_{i=1}^{N} \left\{ \left(I_{ij} - I_{iR} \right)^2 / V_i \right\} / N \quad (1)$$

where CD_j is the national cultural distance of the jth country from Russia, I_{ij} represents the index of the ith dimension and the jth country, R stands for Russia and V_i is the variance of the index of the ith dimension. N = the number of dimensions.

The state enterprises` variable (STATE) measures the share of state-owned enterprises within the total number of enterprises in a particular Russian region[2]. The value is taken for the year prior to the year of entry for all the firms that entered from 1999. For all previous years of entry, the values are from 1998 (before which time data is not available). The data comes from Rosstat.

[1] As in Estrin et al. (2009), the nine following societal cultural practice scales of the GLOBE study (House et al., (2004), p.742–744) were used: assertiveness, institutional collectivism, in-group collectivism, future orientation, gender egalitarianism, humane orientation, performance orientation, power distance and uncertainty avoidance.

[2] The Russian Federation is administratively divided into Federal Subjects, which are commonly referred to as regions. The number of regions was 89 until 2005, after which some of them were merged. The current number of regions is 83.

The regional growth potential (GROWTH) variable is the average growth rate of Gross Regional Product (GRP) in a particular Russian region between 1997 and 2006. The data comes from Rosstat.

The SIZE variable is a natural logarithm of a firm's capital size at the moment of its registration. The logarithmic transformation is generally used to normalise the size variable, which might otherwise be badly skewed (Demirbag et al., 2009). The data comes from Rosstat.

Regional legislation risk (LEGRISK) is a rank from 1 to 89/83 for the Russian regions in which firms are located. The number 1 is assigned to the region with the least legislation risk and 89/83 to the region with the greatest legislation risk. The value of legislation risk is taken for the year preceding the year in which the foreign firm entered the Russian market. However, because the rankings were conducted from 1997 onwards, the values of the first available ranking (as an average in 1997–1998) were assigned for all the years of entrance prior to 1997. The ranking was conducted by the online *Expert* journal.

Finally, we control for the year of entrance and industries by corresponding dummy variables. By industrial dummies, we control for machinery and equipment manufacturing, wood processing, chemical, textile and light industries, metallurgy, plastic and rub manufacturing, resource extraction, service, construction, trade and agricultural/hunting/forestry (altogether) sectors.

4. Results

Table 1 presents the results of the binary logit models (standardized coefficients). Industrial and year dummies are included in all models. Appendix 1 lists the descriptive statistics and correlation matrix of the dependent and explanatory variables. There is quite a strong correlation between STATE and GROWTH variables (0.75). The correlation coefficient between the CORRDIST and CULTDIST indicators is also relatively high (0.58). To test for possible multicollinearity problems in our data we report standard errors and Variance Inflation Factors (VIFs).

In general standard errors and VIFs indicate that there is no serious multicollinearity problem in our data. Model 1, which is a base model with all control variables but without corruption distance and anti-corruption dummy, has relatively high explanatory power. All the coefficients are statistically significant. In general, it can be concluded that the base model is consistent with previous empirical studies on foreign ownership strategies.

Table 1 Results for binary dependent variable: standardized coefficients

Variable	Model 1	Model 2	Model 3	Model 4	VIF	Model 5 [f]
GROWTH	0,09* (0,05)	0,11** (0,05)	0,1 (0,05)	0,12** (0,05)	2,5	0,13** (0,05)
STATE	-0,06 (1,53)	-0,07 (1,5)	-0,06 (1,54)	-0,07 (1,55)	2,7	-0,1* (1,6)
SIZE	0,08** (0,04)	0,08** (0,04)	0,08** (0,04)	0,08** (0,04)	1,1	0,16*** (0,05)
LEGRISK	-0,07* (0,003)	-0,07* (0,003)	-0,07* (0,003)	-0,07* (0,003)	1,5	-0,09*** (0,003)
CULTDIST	0,03 (0,04)	0,12*** (0,05)	0,04 (0,04)	0,12*** (0,05)	1,6	-0,01 (0,06)
CULTDIST SQ	-0,02 (0,02)	-0,09** (0,03)	-0,03 (0,03)	-0,09** (0,03)	1,4	-0,11*** (0,03)
CORRDIST		-0,18*** (0,005)		-0,17*** (0,005)	2,2	-0,05 (0,01)
ANTICORR			-0,11** (0,17)	-0,07 (0,17)	2,2	-0,09* (0,2)
N. obs.	1403	1403	1403	1403		1403
Likelihood test	109,9	126,4	115,8	128,7		182,4

Note:

[a] Model 4 – central specification;

[b] *** - 1% significance; ** - 5% significance; * - 10% significance;

[c] Standard error in parentheses;

[d] Industry and year dummies are included in all models;

[e] In order to reduce multicollinearity between cultural distance and its quadratic term, we centred the cultural distance`s CULTDIST values around its mean;

[f] In this model the dependent variable equals to 1 (full ownership) if a foreign owner has a 95-100% share in the capital of a firm. We also estimated this model with 90% threshold: the results are very similar to that in Model 5 and are available upon request.

In Model 2, we add the corruption distance indicator. From the results, we conclude that there is empirical support for Hypothesis 1a rather than for Hypothesis 1b since the CORRDIST variable's coefficient has a negative sign and is highly statistically significant. In Model 3, we add anti-corruption dummy ANTICORR to Model 1. It is statistically significant and negative, which gives empirical support for Hypothesis 2a rather than for Hypothesis 2b.

In Model 4, our central specification, we include both CORRDIST and ANTICORR variables. In general, the results are the same as in models 1, 2 and 3. However, as can be seen, while corruption distance remains highly statistically significant, anticorruption dummy becomes insignificant (albeit close to being at least marginally significant).

In general, these results indicate that the benefits of having local partners to deal with the corrupt environment in Russia exceed the corresponding costs. Furthermore, the usage of standardized coefficients enables us to conclude that corruption distance is the most important factor for the decision on entry mode choice among those considered (followed by cultural distance and growth potential).

For robust-checking purposes, we also estimate our central specification (Model 4) when the dependent variable equals to 1 if foreign ownership is 95-100%, i.e. strict majority of foreign ownership (Model 5). As we can see from the results, the corruption distance variable is not statistically significant anymore (albeit it remains negative). This result can be interpreted in the way that foreign investors from countries which are much less corrupt than Russia, in order to solve problems associated with corruption in the host country with the help of local partner, prefer to establish just a joint venture with a very minor share of local partner (around 1-5%).

On the other hand, the result for ANTICORR variable's coefficient has not changed in general (its magnitude and significance has even increased a bit), which suggests that anti-corruption legislation in the home country affects not only the decision whether to have a local partner or not, but also the decision to have a strict majority (95-99%) in the capital of the established joint venture. However, further research is needed to prove this proposition, which is not within the scope of this paper.

Finally, since most of our theoretical argumentation presented above is based on the idea that corruption in Russia is higher than that in the home country, we also estimate Model 4 excluding home countries with higher corruption levels than in Russia. The results do not change much from that of Model 4 and are available upon request. This is expected since the subsample in Model 6 is only 22 observations less than the whole sample (i.e., foreign investors from less corruptive countries than Russia are strongly dominant in our sample).

Several interesting findings were made regarding the control variables.

Firstly, the STATE variable's coefficient is negative and statistically significant in Model 5 (and negative and close to be marginally significant in all the other models), which indicates that the more state-owned enterprises there are in a particular Russian region, the more likely foreign companies will choose shared ownership rather than full ownership. This result is quite expected. In emerging economies that are experiencing a transition from socialism to a market economy, state-owned enterprises (SOEs) remain important players, and newcomers may find partnerships with them to be an important means of attaining legitimacy (Peng & Heath, 1996; Hoskisson et al., 2000; Lyles et al., 2004). Moreover, where SOEs dominate the economy, they also control access to crucial local assets, such as natural resources and old-style business networks. Accordingly, in areas where SOEs are strong, foreign investors may find it more difficult to prosper on their own. As Meyer and Nguyen (2005) pointed out, institutional analysis suggests that strong incumbents would induce foreign investors to seek JVs as a mode of entry based on three complementary effects: the local firms' control over resources, the newcomer's need to gain legitimacy, and the lobbying power of incumbents. At the regional level, recent research has identified a 'system of interchange' in the Russian regions in which prominent local

firms participate in decision-making at a regional level in exchange for government support (Yakovlev, 2007).

Secondly, the legislative risk in a particular Russian region, LEGRISK, is positively related to shared ownership. One possible explanation for this result, when interpreted from the institutional perspective, is that legislative risk is an indicator of weak institutions, which increases the need for a local partner. This result goes in line with recent study of Morschett et al. (2010) who found that companies prefer cooperative modes of entry in situations with higher country risk.

Thirdly, the results indicate that the growth potential in a region (the GROWTH variable) and the capital size of an investment (the SIZE variable) are negatively related to shared ownership. The former finding suggests that, because economic growth is usually positively related to the quality of institutions and infrastructure, foreign entrants would find it easier to operate in regions with better economic growth without a local partner. The finding regarding the capital size of investment supports the argument that, in order to ensure the effective transfer of capabilities to the foreign affiliate, MNEs would prefer full ownership. Given that the largest investments in the sample are most likely made by large multinationals, this would explain the result.

Finally, the results concerning the cultural distance indicator, CULTDIST, show that the relationship between cultural distance and entry mode choice has a curvilinear relationship. This finding is in line with the results of Estrin et al. (2009), who explained it as a result of the two opposing forces – greater need and greater costs of working with local partners in culturally distant locations (Slangen & Hennart, 2008).

5. Discussion and conclusions

This paper has utilised unique data to empirically analyse the influence of corruption distance on foreign ownership strategies in Russia. It applied a binary logit model to test the impact of corruption distance and anti-corruption legislation in the investor's home country to the choice of ownership structure for the Russian affiliate. The options investigated were full ownership and joint venture (shared ownership) with a local partner. Theoretically, we took an integrative approach where institutional perspective was merged with the two dominant firm-centred approaches to strategy: transaction cost perspective and a resource-based approach. Corruption distance between the foreign investor's home and host country and the anti-corruption legislation were viewed as institutional factors that contribute to the two

counterforces that a foreign investor is facing when making the ownership mode choice: the need for a local partner and its resources, and the costs of operating with such a partner and controlling its behaviour. We found that corruption distance and strict foreign corruption regulation in the home country lead to the selection of shared ownership, which indicates that in the case of Russia, the benefits of a local partner exceed the costs of operating with such a partner.

5.1. Theoretical contributions

The study contributes to the existing knowledge of the impact of corruption on foreign ownership strategy as follows. Firstly, the study found that foreign companies are more likely to choose shared ownership than full ownership in Russia when the corruption distance between the home country and Russia is higher. Furthermore, according to our findings, corruption distance is one of the most important factors of entry mode choice of foreign investors between full ownership and joint ventures in Russia among considered factors. In general, this finding is in line with the limited number of existing empirical studies on the subject (Smarzynska & Wei, 2000; Javorcik & Wei, 2009; Demirbag et al., 2009; Driffield et al., 2010). When mirrored against the transaction cost perspective, this finding shows that, in the case of corrupted Russia, the benefits of having a local partner exceed the costs of controlling the joint venture for investors from countries that are distant in terms of corruption (i.e., non-corrupted). Similarly, the need for a local partner with its resources and capabilities carried more weight in modal choice than the need to ensure the effective transfer of organisational capabilities by whole ownership as the corruption distance increases. This raises the question of whether the organisational capabilities of MNEs, usually originating from countries with developed institutions, are actually a competitive advantage in Russia, with its weak institutional framework. It may be more important for a MNE to acquire local knowledge in order to solve the bottlenecks in operations caused by corruption and other institutional imperfections. This finding also supports the theoretical argument that weak institutions undermine the efficiency of markets for local assets, which forces foreign investors to acquire such assets through shared ownership with a local partner (Hennart, 2009).

Secondly, foreign companies were found to be more likely to choose shared ownership than full ownership when entering the Russian market if the OECD Anti-Bribery convention had entered into force in the company's country of origin. Here, the benefits of having a local partner seem to exceed the risk of being responsible for its potentially corrupt actions in front of the home country judiciary and bearing the resulting financial and legal consequences, as well as damage to the company's reputation. When selecting shared ownership, foreign investors seem

to place greater value on the fact that the local partner helps the investor avoid direct involvement with corrupt practices. The local partner may already have local assets (or have relevant connections to obtain them) that foreign investors would otherwise have to obtain themselves.

5.2. Limitations and further research

Despite this paper being based on a unique dataset, it is not without limitations. At the same time, these limitations provide ideas for further research. First, we want to highlight that the data has been gathered for statistical rather than research purposes. Therefore, it lacks foreign parent firm characteristics, the use of which as control variables would have improved the quality of our model. Due to the large size of the dataset, the distribution of the parent firms in many different countries and the fact that not all parent firms are publicly listed, the collection of such data specifically for the purposes of this study from other sources would have been practically impossible. To overcome this problem of data acquisition and management, one direction for future research would be to focus on a selected subsample of the dataset and complete it with company-level data.

5.3. Practical and managerial relevance

Our research has important implications for practicing managers and policy-makers. As Zekos (2003) noted, managers looking to do business in a multinational context are morally and economically confronted by the realities of corruption. The present study provides practitioners, particularly from less corrupted countries, with a frame of reference with which to analyse the pros and cons of alternative entry modes when entering Russia or other corrupt countries. This includes all the risks and benefits associated with a local partner to balance between the institutional pressures of the host environment towards undertaking corruption, and of the home country that defines such behaviour as illegal. Moreover, the foreign investor needs to find a balance between building its competence in the host country on local competences and transferring its own company practices and procedures, which often may not perceived as competitive advantages in a host country with a different business environment. Depending on the company, the end result may be a joint venture, or a wholly-owned subsidiary. In any case, the investing company needs to devote time and resources to establishing a dialogue with the local management in the subsidiary or joint venture to find a common approach on how to deal with corrupt officials. Otherwise, the local manager may get involved in corrupt activities just

from seeing them as conventional business practices and ignoring the legal consequences that the foreign parent company may face in its home country.

Our research has implications to policy-making as well. First, it shows that host country corruption is perceived as a barrier for foreign investors, due to which they feel it difficult to enter on their own. At the same time, the search for a trustworthy local partner in an institutionally different country may be too challenging task for many potential investors, so they may refrain from investing at all. Moreover, as more countries ratify the OECD anti-corruption act, more and more foreign investors are risking legal consequences in their home countries due to corrupt practices in the foreign subsidiaries or joint ventures. This may put additional pressure to locate foreign investments in those countries where corruption is under control.

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Appendix 1

Table A1.1 Descriptive statistics and correlation matrix of the dependent and explanatory variables

	N	Mean	StDv	Min	Max	DV	Growth	State	Size	Legrisk	Cultdist	Corrdist	Anticorr
DV	1639	0,56	0,50	0,00	1,00	1,00	0,16	-0,15	0,07	0,02	0,04	0,04	0,06
GROWTH	1639	106,62	1,95	97,75	109,35		1,00	**-0,75**	0,04	0,19	0,04	0,15	0,06
STATE	1638	0,08	0,06	0,02	0,33			1,00	0,03	-0,25	0,00	-0,17	-0,08
SIZE	1639	17,43	1,50	15,42	22,92				1,00	-0,06	0,09	0,11	0,03
LEGRISK	1619	41,98	26,55	1,00	89,00					1,00	-0,08	-0,08	0,26
CULTDIST	1422	0,00	1,44	-3,33	2,52						1,00	**0,58**	0,11
CORRDIST	1630	47,75	18,95	0,20	69,60							1,00	0,29
ANTICORR	1638	0,59	0,49	0,00	1,00								1,00

Note: Correlation coefficients greater than 0.5 are denoted in bold.

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